

Message Text

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ACTION EUR-12

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TAGS: EGEN, SP

SUBJECT: SPANISH INFLATION: RATE OF INCREASE SLOWS

REF: MADRID 5628

1. SPANISH COST-OF-LIVING INDEX ROSE 0.62 PERCENT IN JULY, THE LOWEST INCREASE FOR THAT MONTH SINCE 1971. COUPLED WITH DECLINE IN JUNE BY SAME AMOUNT, INDEX IS NOW AT LEVEL EXISTING AS OF END OF MAY, AN INCREASE OF 11.72 PERCENT SO FAR THIS YEAR AND 17.9 PERCENT IN LAST 12 MONTHS. INDEX ROSE 1.59, 1.18 AND 1.07 PERCENT IN JULY 1975, 1974, AND 1973 RESPECTIVELY. JANUARY-JULY FIGURES FOR SSAME THREE YEARS WERE 8.12, 8.44 AND 7.44 PERCENT COMPARED TO THIS YEAR'S 11.72 PERCENT FIGURE.

2. SINCE 4.58 PERCENT RISE IN MAY, PROBLEM OF INFLATION HAS BEEN OBJECT OF CONSIDERABLE TALK IF NOT ACTION, AND ESTIMATES OF INCREASES AS HIGH AS 25 PERCENT OR MORE FOR WHOLE OF 1976 WERE BECOMING COMMONPLACE. HOWEVER, WITH 0.62 PERCENT DECLINE IN JUNE AND MODEST INCREASE OF SAME AMOUNT IN JULY, IT SEEMS IMPROBABLY THAT FIGURE FOR ENTIRE YEAR WILL COME ANYWHERE CLOSE TO 25 PERCENT, ALTHOUGH MANY STILL FEEL FIGURE WILL EXCEED 20 PERCENT. EMBASSY EARLIER ESTIMATED INFLATION WOULD HIT 17 TO 18 PERCENT FOR 1976

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(REFTEL) AND THESE FIGURES CONTINUE TO SEEM MORE REALISTIC

THAN ANYTHING MUCH OVER 20 PERCENT, ALTHOUGH AT LEAST ONE
WELL-RESPECTED SPANISH ECONOMIST BELIEVES INFLATION RATE
WILL ACCELERATE AFTER AUGUST. INDEX ROSE 1.56, 1.66 AND
1.63 PERCENT IN AUGUST OF 1975, 1974 AND 1973.

3. WHILE FIGURES FOR LAST TWO MONTHS HAVE BEEN A MOST
WELCOME CHANGE, THERE IS NO DOUBT BUT THAT SPAIN'S RATE OF
INFLATION IN 1976 WILL APPROACH OR EXCEED THE HIGHEST LEVELS
OF RECENT YEARS. WHETHER 21 PERCENT OR 18 PERCENT IS ALL BUT
IMMATERIAL. THIS RANGE IS CLEARLY EXCESSIVE IF WAGE DEMANDS ARE
TO BE HELD TO REASONABLE LEVELS, SOCIAL DISCONTENT OVER PRICE
RISES IS TO BE AMELIORATED, SAVINGS AND LONG-TERM PRODUCTIVE
INVESTMENT ARE TO BE ENCOURAGED, AND THE BALANCE-OF-PAYMENTS
DEFICIT IS ONCE AGAIN TO BE MADE MANAGEABLE WITHOUT RESORT-
ING TO CONTINUED HEAVY FOREIGN BORROWING AS GOS IS NOW
DOING.
STABLER

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